BEFORE THE DIRECTOR OF INSURANCE
FOR THE STATE OF ILLINOIS

PUBLIC HEARING FOR THE PLANS OF
DIVISION AND RELATED STATEMENTS BY:

ALLSTATE INSURANCE COMPANY
ALLSTATE INDEMNITY COMPANY
ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
ALLSTATE FIRE AND CASUALTY INSURANCE COMPANY
ENCOMPASS INDEMNITY COMPANY
ENCOMPASS PROPERTY AND CASUALTY COMPANY
ESURANCE INSURANCE COMPANY
ESURANCE PROPERTY AND CASUALTY INSURANCE COMPANY
2775 SANDERS RD
NORTHBROOK, IL 60062-6127

HEARING NO. 21-HR-0010
Hon. Mary Anne Mason,
Hearing Officer

PRE-FILED WITNESS STATEMENT
OF JOSEPH RICHARD CASSANELLI

I, Joseph Richard Cassanelli, provide the following witness statement:

I. Background & Qualifications.

1. I am a Managing Director at Lazard Frères & Co. LLC ("Lazard"), where I have been employed since 2002. I was promoted to Managing Director in 2010 and appointed Co-Head, Financial Institutions Group North America in 2019. I am a Member of Lazard's Opinion Committee and a valuation subcommittee thereof. I received a Bachelor of Science degree, magna cum laude, in Accounting and Finance from the W. Paul Stillman School of Business at Seton Hall University in 1998. Attached hereto as Exhibit A is my resume.

2. Lazard, together with its affiliates, is a financial advisory and asset management firm that engages in investment banking, asset management, and other financial services, primarily with institutional clients.

3. At Lazard, I lead the efforts of the Financial Institutions Group based in New York and engage in advising global financial institutions on a variety of assignments, including mergers and acquisitions, restructurings, capital raises and other strategic initiatives. I focus on a broad range of global financial institutions, including insurance (life insurance and property & casualty insurance), asset management, alternative asset management, financial services, and brokerage clients, among others. As a member of Lazard's Opinion Committee, I am responsible for reviewing fairness opinions drafted and issued across the firm.

4. Lazard has extensive experience advising companies in connection with restructuring transactions and is viewed as an industry pioneer and leader in this field. Over the past decade,

Lazard has advised on over 500 restructurings worldwide with an aggregate value of over $1 trillion, including many of the largest and most complex transactions. Lazard's expertise includes: out-of-court restructuring and recapitalization, Chapter 11 advisory, divesture and asset sales, capital raising and restructuring, and expert testimony.

5. Lazard has been involved in the following major recent restructuring transactions: the 24 Hour Fitness USA Chapter 11 process ($1.7bn); the restructuring of J.C. Penney and related sale of retail and operating assets to Simon Property Group and Brookfield Asset Management ($5.5bn); advising Ares Management on financial restructuring of California Resources Corporation ($7.4bn); and the Neiman Marcus Chapter 11 process ($5.8bn). Additionally, Lazard was involved in a number of significant restructuring and recapitalization transactions during and following the global financial crisis (2007 – 2009), including: the rehabilitation of Financial Guaranty Insurance Company ("FGIC"); MUFG's investment in and strategic alliance with Morgan Stanley ($9.0bn); U.S. government's capital infusion into GMAC ($7.5bn); Barclays' placement of common stock with Temasek Holdings ($18.5bn); J.C. Flowers & Co.'s investment in MF Global ($1.4bn); New Century Financial Corporation's bankruptcy-related restructuring and asset sales; and Warburg Pincus's capital commitment to MBIA ($1.0bn).

6. I personally have over 20 years of experience as a financial advisor, including significant experience in the insurance industry. For example, I have been engaged on the following insurance-specific assignments: Allstate's sale of Allstate Life Insurance Company to Blackstone (pending), Allstate's acquisitions of InfoArmor and SquareTrade, Ares Management's

acquisition via Aspida of F&G Reinsurance, Ares Management's formation of Aspida and subsequent acquisition of Pavonia Life Insurance Company of Michigan (pending), Genworth Financial's sale to China Oceanwide (pending), sale of Genworth's European Mortgage Insurance business to AmTrust, Forethought's sale to Global Atlantic, ING's sale of Sul América stakes to the Larragoiti Family and Swiss Re, Athene's sale of Aviva's U.S. life business to Global Atlantic, Tokio Marine's acquisition of Delphi Financial, FGIC's reinsurance agreement with MBIA, the acquisition of Gerber (including Gerber Life Insurance) by Nestlé from Novartis, Aviva's acquisition of AmerUs, the merger of Jefferson Pilot and Lincoln Financial, the acquisition of Crump Group by J.C. Flowers & Co., and the merger of John Hancock and Manulife. Additionally, I have been involved in the sponsored demutualization of Indianapolis Life and subsequent sale to AmerUs and the restructuring of Conseco. I also have experience working on capital advisory assignments and asset management services and broker specific assignments.

7. Lazard has not yet received compensation for our work on this matter. Lazard's compensation for this assignment has in no way affected the conclusions of my written testimony.

II. The Proposed Restructuring.

8. I understand that in accordance with the Domestic Stock Company Division Law of the State of Illinois, 215 ILCS 5/35B-1 *et seq*. (the "Division Law"), The Allstate Corporation ("Allstate") intends to divide certain inactive Michigan automobile insurance policies with an open injury claim (the "Specified Policies") issued by eight Illinois domestic insurers in the Allstate group (each a "Dividing Company") into three distinct newly formed Illinois domestic insurers, each to be

wholly owned, directly or indirectly, by Allstate Insurance Holdings, LLC ("AIH") (collectively, the "Division).

9. To accomplish the proposed Division, several steps are required. First, the Dividing Companies will commute (defined by the International Risk Management Institute as "*the valuation, payment, and complete discharge of all obligations between [a ceding insurer and a reinsurer] under a particular reinsurance contract*") the quota share reinsurance of the Specified Policies (currently 100% reinsured to Allstate Insurance Company ("AIC")) by the other seven Dividing Companies). Second, the Dividing Companies will divide and the Specified Policies will be allocated to eight newly formed Illinois domestic insurance companies (the "NewCos"). The proposed Division will result in eight separate NewCos as well as eight surviving companies that will retain the policies and business not allocated in the proposed Division. Third, Allstate will merge all eight NewCos into three newly formed Illinois insurance companies (i.e., ASMI Auto Insurance Company ("ASMI"); ESMI Auto Insurance Company ("ESMI"); ECMI Auto Insurance Company ("ECMI" and together with ASMI and ESMI, the "ASMI Group")) that are duly licensed to do insurance business in Illinois and will be duly licensed to do business in Michigan (the "MergerCos") and that will be wholly owned, directly or indirectly, by AIH.

III. Scope of Lazard's Work and Summary of Lazard's Review and Analysis.

10. Allstate retained Lazard to act as a financial advisor to analyze the business and financial condition of the MergerCos and to assess this information against certain financial aspects of the

approval standards in Section 35B-25(b) of the Division Law (altogether the "Illinois Division Statutes").

11. As part of Lazard's review and analysis, Lazard discussed with Allstate its strategic rationale for the proposed Division and the potential qualitative implications of the proposed Division on the business strategy and competitive positioning within the Michigan automobile insurance market. Lazard also reviewed materials prepared by Allstate in the process, including historical and projected pro forma financial statements for the MergerCos.

12. My testimony reflects my independent views, based on materials provided to Lazard by Allstate as well as publicly available information, regarding: (1) Lazard's analysis of certain pro forma financial metrics for the MergerCos at the time of the proposed Division and thereafter; and (2) Lazard's benchmarking exercise comparing certain financial metrics of the MergerCos to publicly available financial metrics of select peers.

13. In connection with our role as a financial advisor, Lazard prepared a report summarizing our analyses and observations. I believe the report will be admitted into the record, in both its confidential and redacted form as Exhibits 24A and 24B, respectively (the "Report").

IV. Limitations on and Qualifications of Lazard's Review and Analysis.

14. Lazard's review and analysis are predicated on all the assumptions, limitations, and qualifications set forth on Slide 5 of the Report.

V. Illinois Division Statutes Requirements and Lazard's Analytical Framework.

15. Lazard has been advised by Allstate that the Director of Insurance of the State of Illinois (the "Director") must consider the following factors before approving a division in accordance with Illinois Division Statutes: (1) the amount of assets in each resulting company upon consummation of the division in relation to the business and transactions of each resulting company, (2) the solvency of each resulting company upon consummation of division, (3) Illinois licensing eligibility of each new company; (4) ongoing protection of policyholders, (5) whether the division is designed to hinder, delay or defraud any policyholder or creditor of the dividing company, and (6) compliance with the Uniform Fraudulent Transfer Act.

16. For the first factor concerning the remaining assets in each resulting company, we reviewed the statutory pro forma financials (including balance sheets) as provided by Allstate for the MergerCos. Additionally, Lazard performed a benchmarking analysis for the MergerCos relative to selected peer companies from the perspective of asset amount, composition and quality.

17. Although Lazard did not address solvency, for the second factor, we reviewed the statutory pro forma financials for the MergerCos (including balance sheets) as provided by Allstate and certain capital adequacy ratios as calculated by Allstate. Additionally, Lazard performed a benchmarking analysis for the MergerCos relative to selected peer companies from the perspective of financial position and certain capital adequacy ratios.

18. For the third factor, Illinois licensing eligibility, we evaluated the MergerCos' statutory Capital & Surplus levels as projected by

Allstate in the context of required thresholds for insurance licensing in Illinois. Because of all the policies being allocated to the MergerCos are Michigan automobile policies, we also evaluated the MergerCos' statutory capital and surplus levels in the context of required thresholds for insurance licensing in Michigan.

19. Making determinations with respect to the remaining factors (i.e., the ongoing protection of policyholders; whether the division is designed to hinder, delay or defraud any policyholder or creditor; and compliance with the Uniform Fraudulent Transfer Act) would require applying standards (including legal rules) that fall outside the scope of Lazard's work. Nevertheless, elements of the financial analysis conducted by Lazard on the MergerCos (particularly regarding their relative capitalization levels) could be relevant to the Director when assessing these additional factors.

VI. Overview of MergerCos

20. The MergerCos resulting from the proposed Division will consist of the following three Illinois-Domiciled entities at the time of the Division: ASMI Auto Insurance Company (ASMI), ESMI Auto Insurance Company (ESMI), and ECMI Auto Insurance Company (ECMI). Table 1 below provides an overview of the MergerCos' Reserves as a result of the Division if the Division were to occur on June 30, 2020.

Table 1

Overview of MergerCo Reserves (As Provided by Allstate)			
	Loss and ALAE Reserves ("Reserves") (6/30/20)		
MergerCo	Gross Reserves (incl. MCCA Receivable) –	MCCA Receivable =	Net Reserves (excl. MCCA Receivable)
ASMI	$4,412mm	$4,072mm	$340mm
ESMI	$439mm	$385mm	$54mm
ECMI	$189mm	$173mm	$16mm
Memo: ASMI Group	*$5,040mm*	*$4,630mm*	*$410mm*

Note: MergerCos financials shown before 100% quota share reinsurance of ESMI and ECMI to ASMI for claims not ceded to the MCCA.

The Gross Reserves column shows Loss and Allocated Loss Adjustment Expense ("ALAE") Reserves inclusive of Personal Injury Protection ("PIP") Reserves that are ceded to the Michigan Catastrophic Claims Administration ("MCCA"), a private non-profit organization created by the Michigan Legislature in 1978 to provide an indemnification mechanism for PIP benefits in the State of Michigan. The MCCA assesses all auto insurance companies operating in Michigan to cover catastrophic medical claims occurring in Michigan due to motor vehicle accidents.

The MCCA Receivable column shows PIP Reserves ceded to the MCCA.

The Net Reserves column shows Loss and ALAE Reserves including PIP Reserves that are not ceded to the MCCA and Non-PIP Reserves.

Table 2 below provides an overview of the MergerCos' capitalizations as a result of the Division if the Division were to occur on June 30, 2020 and December 31, 2020.

Table 2

Overview of MergerCo Capitalization (As Provided by Allstate)						
	6/30/2020			12/31/2020		
MergerCo	Capital & Surplus	NAIC CAL RBC Ratio	BCAR at 99.6% VaR	Capital & Surplus	NAIC CAL RBC Ratio	BCAR at 99.6% VaR
ASMI	$217mm	542%	24.3%	$217mm	576%	25.6%
ESMI	$23mm	12,765%	20.5%	$23mm	12,744%	22.8%
ECMI	$11mm	13,763%	27.1%	$11mm	13,709%	28.8%
Memo: ASMI Group	*$217mm*	*542%*	*18.2%*	*$217mm*	*575%*	*19.6%*

The NAIC CAL RBC Ratio column shows the NAIC Company Action Level Risk-Based Capital Ratio ("CAL RBC"), a financial metric required in the U.S. insurance industry to assess capital levels needed to support business operations and developed by the National Association of Insurance Commissioners ("NAIC"). The NAIC is the U.S. insurance standard-setting organization overseen by the state insurance regulators from the 50 states, as well as Washington, D.C. and five U.S. territories.

A higher CAL RBC Ratio is considered indicative of greater capital strength. Under the CAL RBC framework, there is no risk charge for MCCA Receivable (i.e., no need to hold capital against the counterparty risk associated with the MCCA exposure).

The BCAR at 99.6% VaR column shows estimates of the MergerCos' BCAR scores, which were developed by Allstate based on its understanding of A.M Best's Capital Adequacy Ratio ("BCAR") methodology. The BCAR is a quantitative metric to assess balance sheet strength designed and calculated by rating agency A.M. Best. The BCAR is viewed by Lazard and Allstate as a relevant capital adequacy ratio for the MergerCos given that: (1) Allstate understands that 80% or more of major auto insurers (with greater than $50mm of Direct Premiums Written ("DPW")) utilize BCAR; and (2) ASMI Group will be rated by A.M. Best and will be ascribed a

BCAR score. A higher BCAR score is considered indicative of greater capital strength.

A.M. Best has six different ratings levels for the BCAR score: Strongest, Very Strong, Strong, Adequate, Weak and Very Weak. To receive a BCAR rating above “Very Strong”, an insurer needs a BCAR score greater than 10.0% at a Value at Risk (“VaR”) confidence level of 99.6% (highest confidence level under A.M Best). In contrast to the CAL RBC framework, there is a capital charge for MCCA Receivable under the BCAR framework. Given the large size of the MergerCos’ MCCA Receivable balances, the corresponding capital charge has a meaningful negative impact on the MergerCos’ BCAR ratios.

Lazard has been advised by Allstate that it will have reinsurance agreements in place between ASMI and each of ECMI and ESMI in order to qualify for a group rating from A.M. Best so that the MergerCos within ASMI Group receive the same group rating as ASMI Group. Lazard understands that Allstate is targeting a Financial Strength Rating (“FSR”) from A.M. Best for ASMI Group (and therefore the MergerCos) between “A-” and “B++” upon Division.

VII. MergerCos’ Projected Financial Performance

21. Lazard received and analyzed Allstate’s internal financial projection models for ASMI, ESMI, ECMI and ASMI Group. Projected capital adequacy ratios are summarized in Table 3 below.

Table 3

		Roll Forward to Division Date		Allstate Management Projections				
		6/30/2020	12/31/20E	2021E	2022E	2023E	2024E	2025E
ASMI	Net Income	--	--	$3.9	$4.5	$5.6	$5.5	$5.4
	Capital & Surplus	$217	$217	$221	$226	$231	$237	$243
	CAL RBC Ratio	542%	576%	641%	697%	757%	807%	861%
	BCAR Ratio @ 99.6% VaR	24.3%	25.6%	29.0%	32.2%	35.6%	38.6%	41.5%
ESMI	Net Income	--	--	$0.0	$0.1	$0.1	$0.1	$0.1
	Capital & Surplus	$23	$23	$23	$23	$23	$23	$23
	CAL RBC Ratio	12,765%	12,744%	12,705%	12,661%	12,613%	12,575%	12,538%
	BCAR Ratio @ 99.6% VaR	20.5%	22.8%	26.4%	29.3%	32.2%	34.6%	37.0%
ECMI	Net Income	--	--	$0.0	$0.0	$0.1	$0.1	$0.1
	Capital & Surplus	$11	$11	$11	$11	$11	$11	$11
	CAL RBC Ratio	13,763%	13,709%	13,634%	13,551%	13,463%	13,386%	13,311%
	BCAR Ratio @ 99.6% VaR	27.1%	28.8%	31.6%	34.1%	36.5%	38.6%	40.7%
ASMI Group	Net Income	--	--	$3.9	$4.7	$5.8	$5.7	$5.6
	Capital & Surplus	$217	$217	$221	$226	$231	$237	$243
	CAL RBC Ratio	542%	575%	640%	696%	756%	806%	859%
	BCAR Ratio @ 99.6% VaR	18.2%	19.6%	23.2%	26.7%	30.4%	33.8%	37.0%

Based upon Allstate's financial projections, ASMI, ESMI, ECMI and ASMI Group are each projected to generate positive Net Income throughout the projection period (2021E-2025E). Allstate has indicated that it will not pay dividends from the MergerCos over the projection period, resulting in Capital & Surplus growing over time.

As set forth in Allstate's financial projections, MergerCos' Reserves are expected to decline over the projection period based upon loss reserve payout patterns consistent with Allstate's historical payout patterns. Similarly, MergerCos' MCCA Receivables are expected to decline over the projection period at a rate consistent with Allstate's historical experience.

As a result of positive Net Income, increasing Capital & Surplus and declining Reserves and MCCA Receivable balances, each as set forth in Allstate's financial projections, ASMI and ASMI Group BCAR and CAL RBC Ratios are expected to improve over the projection period. ESMI and ECMI CAL RBC Ratios are expected to remain in excess of 12,500% and 13,000%, respectively. ESMI and ECMI BCAR Ratios are expected to improve throughout the projection period. BCAR Ratios for each of the MergerCos are expected to remain in excess of A.M. Best's 10.0% minimum BCAR threshold to receive a "Very Strong" rating at 99.6% VaR throughout the projection period.

VIII. Benchmarking Analysis Comparing Certain Financial Metrics of the MergerCos to Publicly Available Financial Metrics of Select Peers.

22. Lazard conducted a peer benchmarking analysis utilizing public information to develop the relevant peer sets of insurance companies. To contextualize the MergerCos' pro forma financials (including level of capitalization and asset size), Lazard considered two peer groups: Property & Casualty ("P&C") Stock Peers and Michigan Auto Peers.

23. The P&C Stock Peers peer set is reflective of U.S. P&C companies with DPW between $0bn and $5bn, for which Auto DPW represents 50% or more of total national DPW, and reserves are greater than $50mm. Lazard's selected P&C Stock Peers universe is comprised entirely of stock companies given that the MergerCos are structured as stock companies.

24. Lazard focused its P&C Stock Peers on companies with an A.M. Best FSR between "A-" and "B++", consistent with the target rating range for ASMI Group (and therefore the MergerCos) upon Division. Based upon the publicly disclosed information available to Lazard, all P&C Stock Peers appear to be ongoing businesses (actively writing new premiums), in contrast to the MergerCos, which will be run-off insurers (no premiums written over the projection period).

25. The Michigan Auto Peers peer set is reflective of U.S. P&C companies and includes (1) the largest Michigan auto insurance

underwriters, for whom Michigan auto represents 10% or more of total national DPW and reserves are greater than $50mm; and (2) insurance companies serving on MCCA Standing Committees (seven committees that provide assistance in the operation of the MCCA) that are not included in the largest Michigan auto underwriters. Lazard focused its Michigan Auto Peers on stock companies across all A.M. Best FSRs, given the limited number of Michigan Auto Peers. Consistent with the P&C Stock Peers, all Michigan Auto Peers appear to be ongoing businesses (actively writing new premiums), in contrast to the MergerCos, which will be run-off insurers (no premiums written over the projection period).

26. To compare the MergerCos to the P&C Stock Peers and the Michigan Auto Peers, Lazard conducted two analyses: (1) Capital & Surplus Analysis; and (2) Asset Size, Composition and Quality Analysis.

27. The Capital & Surplus Analysis considered the following:

CAL RBC Ratio Analysis

Lazard reviewed the CAL RBC Ratios for the MergerCos as provided by Allstate as of 6/30/20 and 12/31/20. The CAL RBC Ratios of the P&C Stock Peers and Michigan Auto Peers were sourced using public information as of 12/31/19. Lazard's analysis compares the CAL RBC Ratios of the MergerCos at 6/30/20 and 12/31/20 to those of the P&C Stock Peers with FSRs between "A-" and "B++" and the Michigan Auto Peers across all FSRs.

Table 4

CAL RBC Ratios											
Peers (as of 12/31/19)						MergerCos (As Provided by Allstate)					
P&C Stock Companies with FSR Rating A- to B++			Michigan Auto Stock Company Peers			as of 6/30/20			as of 12/31/20		
Low	Median	High	Low	Median	High	ASMI	ESMI	ECMI	ASMI	ESMI	ECMI
258%	359%	440%	322%	465%	740%	542%	12,765%	13,763%	576%	12,744%	13,709%

The MergerCos' 6/30/20 CAL RBC Ratios are all in line with or in excess of the peer group. ASMI's 6/30/20 CAL RBC Ratio of 542% is among the highest in the peer group, due to (1) ASMI's status as a run-off entity, and (2) the CAL RBC formula which, unlike A.M. Best's BCAR, does not include a capital charge for the exposure to state pools like the MCCA. ESMI and ECMI's CAL RBC Ratios are well in excess of the peers due to the fact that the RBC framework does not include a capital charge for the exposure to the MCCA and reserves are 100% quota share reinsured to ASMI.

As of 12/31/20, ASMI, ESMI and ECMI CAL RBC Ratios are in line with or in excess of the peers considered.

BCAR at 99.6% VaR Analysis

Lazard reviewed the BCAR ratios at a VaR confidence level of 99.6% for ASMI, ESMI, ECMI and ASMI Group as estimated by Allstate as of 6/30/20 and 12/31/20. The BCAR ratios of the P&C Stock Peers and the Michigan Auto Peers were sourced using public information as of 12/31/19. Lazard's analysis compares the BCAR ratios of the MergerCos at 6/30/20 and 12/31/20 to those of the P&C Stock Peers with FSRs between "A-" and "B++" and the Michigan Auto Peers across all FSRs.

Table 5

BCAR Ratio @ 99.6% VaR													
Peers (as of 12/31/19)						MergerCos (As Provided by Allstate)							
P&C Stock Companies with FSR Rating A- to B++			Michigan Auto Stock Company Peers			as of 6/30/20				as of 12/31/20			
Low	Median	High	Low	Median	High	ASMI	ESMI	ECMI	ASMI Group	ASMI	ESMI	ECMI	ASMI Group
18.9%	32.3%	58.0%	14.0%	37.3%	47.1%	24.3%	20.5%	27.1%	18.2%	25.6%	22.8%	28.8%	19.6%

BCARs of ASMI Group and the MergerCos are largely aligned with the overall peer set and in excess of Progressive, one of Allstate's closest peers (14.0% BCAR). The relatively large size of ASMI Group's MCCA Receivable balance relative to peers has a meaningful negative impact on ASMI Group's BCAR. Without the capital charge associated with the MCCA exposure, and for reference only, ASMI Group's BCAR would be well in excess of peers (6/30/2020 BCAR as estimated by Allstate of 74.2%).

The 12/31/20 BCARs of the MergerCos are largely aligned with the overall peer set.

Adjusted Net Reserves / Surplus Ratio Analysis

The selected peers are ongoing businesses, which hold meaningful capital to support active business, investments and future growth (in addition to capital held in support of reserves). In contrast, the MergerCos, as run-off companies, only hold capital in support of reserves.

While the Net Reserves / Surplus Ratio is a measure of capital adequacy widely applicable across P&C insurers (and is presented in Table 7 below for reference), it is less applicable to run-off insurers. In order to improve the comparability between run-off insurers (such as the MergerCos) and ongoing businesses (such as the peers), the Adjusted Net Reserve / Surplus Ratio was developed by Allstate. A lower Adjusted Net Reserves / Surplus Ratio is indicative of greater capital strength.

The Adjusted Net Reserves / Surplus Ratio is a version of the Net Reserves / Surplus Ratio (with Net Reserves excluding the reserves ceded to the MCCA), modified to exclude estimated capital held by peers to support ongoing business.

The Adjusted Net Reserves / Surplus Ratio methodology estimates the Net Reserves / Surplus Ratios of selected peers if estimated capital held for ongoing premiums written is excluded from the Surplus of each respective peer. As a result, Lazard views the Adjusted Net Reserves / Surplus Ratio as more relevant than the Net Reserves / Surplus Ratio for the purpose of comparing the MergerCos and the selected peers.

Under Allstate's Adjusted Net Reserves / Surplus Ratio framework, the adjustment to Surplus was estimated using BCAR industry premium charge factors and premium diversification / covariance benefits based on Allstate's methodology and assumptions. Lazard reviewed and agreed with Allstate's approach and Lazard replicated Allstate's methodology across its P&C Stock Peers and Michigan Auto Peers. Lazard relied on public information as of December 31, 2019 and on select assumptions furnished by Allstate to perform the Adjusted Net Reserves / Surplus Ratio analysis (including BCAR industry premium charge factors and premium diversification / covariance benefits).

Table 6

Adjusted Net Reserves / Surplus Ratio											
Peers (as of 12/31/19)						MergerCos (As Provided by Allstate)					
P&C Stock Companies with FSR Rating A- to B++			Michigan Auto Stock Company Peers			as of 6/30/20			as of 12/31/20		
Low	Median	High	Low	Median	High	ASMI	ESMI	ECMI	ASMI	ESMI	ECMI
59%	139%	250%	53%	140%	235%	189%	0%	0%	178%	0%	0%

ASMI's Adjusted Net Reserves / Surplus Ratio is within the peer range. ESMI and ECMI Adjusted Net Reserves / Surplus Ratios are viewed as not meaningful given the reinsurance of liabilities not covered by the MCCA to ASMI under the proposed Division structure.

Net Reserves / Surplus Ratio Analysis

While Lazard also considered the Net Reserves / Surplus Ratio (with Net Reserves excluding the reserves ceded to the MCCA), it is only presented for reference given the limited comparability between run-off insurers (such as the MergerCos) and ongoing businesses (such as the peers) under the Net Reserves / Surplus Ratio framework.

Similar to the CAL RBC analysis and the BCAR analysis, the data for the MergerCos' Net Reserves / Surplus Ratios was provided by Allstate, while the peer data was sourced from public information and shown as of 12/31/19.

Table 7

Net Reserves / Surplus Ratio											
Peers (as of 12/31/19)						MergerCos (As Provided by Allstate)					
P&C Stock Companies with FSR Rating A- to B++			Michigan Auto Stock Company Peers			as of 6/30/20			as of 12/31/20		
Low	Median	High	Low	Median	High	ASMI	ESMI	ECMI	ASMI	ESMI	ECMI
53%	80%	139%	45%	94%	138%	189%	0%	0%	178%	0%	0%

ASMI has a higher Net Reserves / Surplus Ratio than its peers due to (1) its run-off status, and (2) the fact that ASMI does not need to retain capital to support new business. ESMI and ECMI Net Reserves / Surplus Ratios are viewed as not meaningful, given the reinsurance of liabilities not covered by the MCCA to ASMI under proposed Division structure.

28. To compare the MergerCos versus the P&C Stock Peers and the Michigan Auto Peers, Lazard also analyzed the Asset Size, Composition and Quality Analysis and considered the following:

To evaluate asset size, composition and quality, Lazard reviewed several metrics of the investment portfolio of the MergerCos versus those of the observed peers. The metrics of the P&C Stock Peers and the Michigan Auto Peers were sourced from public information and are shown as of 12/31/19. Lazard's analysis compares the selected metrics of the MergerCos (as provided by Allstate) as of 6/30/20 to those of the P&C Stock Peers with FSRs between "A-" and "B++" and the Michigan Auto Peers across all FSRs.

29. The Asset Size, Composition, and Quality Analysis considered the following:

Fixed Income and Cash & Short-Term Investments

Lazard reviewed the asset class composition of the investment portfolios of the MergerCos versus those of the peers. Based on U.S. statutory disclosure, the peers' investment portfolios include the following asset categories: fixed income, cash & short-term investments, equity, real estate & mortgage loans, and other. To evaluate asset quality, Lazard focused on fixed income and cash & short-term investments (considered by Lazard and Allstate to be generally more conservative investments), as a percentage of total investments.

Table 8

Fixed Income and Cash & Short-Term Investments as a % of Total Investments								
Peers (as of 12/31/19)						MergerCos (As Provided by Allstate) as of 6/30/20		
P&C Stock Companies with FSR Rating A- to B++			Michigan Auto Stock Company Peers					
Low	Median	High	Low	Median	High	ASMI	ESMI	ECMI
52%	81%	99%	48%	82%	100%	95%	100%	100%

ESMI and ECMI have the highest proportion of fixed income and cash & short-term investments among the peers, with 100% of their respective investment portfolios. ASMI has a ratio of 95% (with the remainder consisting of ASMI's investment in its affiliates ESMI and ECMI).

Bond Average Asset Quality

To evaluate fixed income investment portfolio quality, Lazard used the NAIC framework, which is viewed as a uniform risk quantification framework across peers. The bond average asset quality is based on the distribution of a company's bond portfolio within the six NAIC bond quality classifications. Classes 1 and 2 represent investment grade bonds. These bonds are of the highest quality – their credit risk is at its lowest and their credit profile is stable. Classes 3, 4, 5 and 6 represent non-investment grade bonds. These bonds are of lower quality, higher credit risk and their credit profile is more volatile. Under the NAIC framework, a lower bond average asset quality figure is indicative of a higher quality fixed income investment portfolio.

Table 9

Bond Average Asset Quality								
Peers (as of 12/31/19)						MergerCos (As Provided by Allstate) as of 6/30/20		
P&C Stock Companies with FSR Rating A- to B++			Michigan Auto Stock Company Peers					
Low	Median	High	Low	Median	High	ASMI	ESMI	ECMI
1.04	1.52	1.68	1.18	1.27	1.71	1.25	1.00	1.00

As of 6/30/20, ESMI and ECMI have average bond asset quality ratings of 1.00, which is the lowest among peers. As of 6/30/20, ASMI has an average bond asset quality rating of 1.25, in line with the peers.

Bonds Rated #3 - #6 / Total Bonds

The third financial metric Lazard reviewed as part of the Asset Size, Composition and Quality Analysis was the percentage of bonds rated between #3 and #6 under the NAIC framework as a percentage of total bonds, with a lower figure indicative of a higher quality fixed income portfolio. ASMI, ESMI and ECMI each have zero bonds rated from #3 to #6 under the NAIC framework, which is the lowest among the peers.

Table 10

Bonds Rated #3 - 6 / Total Bonds								
Peers (as of 12/31/19)						MergerCos (As Provided by Allstate) as of 6/30/20		
P&C Stock Companies with FSR Rating A- to B++			Michigan Auto Stock Company Peers					
Low	Median	High	Low	Median	High	ASMI	ESMI	ECMI
0%	4%	14%	1%	4%	16%	0%	0%	0%

IX. Lazard's Observations on Certain Financial Aspects of the Illinois Division Statutes

30. Based on discussions with Allstate and its counsel, the information as of 6/30/20 provided to and available to Lazard, and subject to the assumptions, qualifications, and limitations in

the Report, Lazard makes the following observations on certain financial aspects of the Illinois Division Statutes in connection with the proposed Division.

31. With respect to the first factor, the size of remaining assets in each resulting company, Lazard believes that, based upon the MergerCos' pro forma financials provided by Allstate and Lazard's peer benchmarking analysis, the amount of assets of each of the MergerCos upon the Division is not unreasonably small in relation to the business in which each of the MergerCos are engaged.

32. With respect to the second factor, while Lazard expresses no opinion as to the solvency of any entity, Lazard believes that based upon the MergerCos' pro forma financials provided to Lazard by Allstate and Lazard's peer benchmarking analysis, upon consummation of the proposed Division: (1) admitted assets of each of the MergerCos are not less than its capital, minimum required surplus, and all liabilities; and (2) most relevant capital ratios of each of the MergerCos are in line with or in excess of peers.

33. With respect to the third factor, state licensing eligibility, Lazard believes that each of the MergerCos would meet the required Capital & Surplus eligibility thresholds for insurance company licensing in the States of Illinois and Michigan at the time of the proposed Division.

34. Lazard understands, based on discussions with Allstate, that under Section 13 of the Illinois Insurance Code, to be eligible to receive a license to transact multiple lines of property and casualty insurance in Illinois, a stock insurer organized after December 31, 1985 must have: (1) paid-up capital of at least $1,000,000; plus (2) paid-in surplus of at least $1,000,000.

35. Lazard further understands, based on discussions with Allstate and the aforementioned requirements, each MergerCo must have paid-up capital and paid-in surplus of at least $2,000,000 to be eligible to receive a license to transact insurance business in Illinois. Based upon the financial information provided to Lazard, ASMI, ESMI, and ECMI are projected to have Capital & Surplus as of 12/31/20E in excess of the Illinois insurance licensing eligibility thresholds and we understand based on discussion with Allstate, that the MergerCos have received their Illinois licenses.

Table 11

Illinois Licensing Eligibility – MergerCos Capital & Surplus Requirements			
MergerCo	12/31/20E Capital & Surplus	Illinois Requirement	Compliant with Requirement?
ASMI	$217,000,000	$2,000,000	Yes
ESMI	$22,555,556	$2,000,000	Yes
ECMI	$10,546,665	$2,000,000	Yes

36. Lazard understands, based on discussions with Allstate, that under Section 500.410 of the Michigan Insurance Code of 1956 to qualify for and maintain authority to transact insurance in Michigan, a foreign insurer applying for a certificate of authority in Michigan after January 1, 1999 must possess and thereafter maintain: (1) not less than $7,000,000 of unimpaired capital & surplus; plus (2) if applying after July 21, 1965, additional surplus no less than $500,000.

37. Based on Lazard's understanding of the aforementioned requirements, each MergerCo must maintain not less than $7,500,000 of minimum capital & surplus to be eligible to transact insurance business in Michigan. Based upon the financial information provided to Lazard, ASMI, ESMI, and ECMI are projected to have Capital & Surplus as of 12/31/20E

in excess of the Michigan insurance licensing eligibility thresholds.

Table 12

Michigan Licensing Eligibility – MergerCos Capital & Surplus Requirements			
MergerCo	12/31/20E Capital & Surplus	Michigan Requirement	Compliant with Requirement?
ASMI	$217,000,000	$7,500,000	Yes
ESMI	$22,555,556	$7,500,000	Yes
ECMI	$10,546,665	$7,500,000	Yes

I, Joseph Richard Cassanelli, certify, under penalties as provided by Section 1-109 of the Illinois Code of Civil Procedure, that the foregoing statements are true and correct, except as to matters stated to be on information and belief and as to such matters I certify that I verily believe the same to be true.

Joseph Richard Cassanelli

February 25, 2021

EXHIBIT A

Joseph Cassanelli Biography

Joseph R. Cassanelli is Co-Head of Lazard's North American Financial Institutions Group. He has over 20 years of experience advising on mergers and acquisitions for a broad range of global financial institutions. In addition, he serves as a member of Lazard's Opinion Committee and a valuation subcommittee thereof.

Insurance specific advisory assignments include: Allstate's sale of Allstate Life Insurance Company to Blackstone (pending), Allstate's acquisitions of SquareTrade and InfoArmor, Ares Management's acquisition via Aspida of F&G Reinsurance, Ares Management's formation of Aspida and subsequent acquisition of Pavonia Life Insurance Company of Michigan (pending), Genworth Financial's sale to China Oceanwide (pending), Genworth's sale of its European Mortgage Insurance business to AmTrust, Genworth's sale of its controlling stake in Genworth MI Canada to Brookfield, Forethought's sale to Global Atlantic, Tokio Marine's acquisition of Delphi Financial, ING's sale of Sul América stakes to the Larragoiti Family and Swiss Re, FGIC's reinsurance agreement with MBIA, the acquisition of Gerber (including Gerber Life Insurance) by Nestlé from Novartis, Aviva's acquisition of AmerUs, the merger of Jefferson Pilot and Lincoln Financial, the acquisition of Crump Group by J.C. Flowers & Co., and the merger of John Hancock and Manulife. Additionally, Joseph was involved in the sponsored demutualization of Indianapolis Life and subsequent sale to AmerUs and the restructuring of Conseco.

Other insurance advisory assignments include: Blackstone's sale of its stake in FGL to FNF, Athene's share exchange with and concurrent share sale to Apollo, Apollo's acquisition of Voya's Closed Block Variable Annuity Business, Blackstone's acquisition of Fidelity & Guaranty Life, Athene's (Apollo) acquisition of Aviva U.S. Life & Annuity, Athene's (Apollo) sale of Aviva U.S. Life to Global Atlantic, Blackstone's acquisitions of Zurich Eurolife Private Banking Solutions Business, Lombard and Philadelphia Financial, Lincoln's sale of Delaware Investments to Macquarie.

Asset management, services and brokerage specific advisory assignments include: C-Corp conversions of Apollo and Blackstone, Rhône on its sale of a 30% interest to Eurazeo, Cetera's sale of Legend Group, KKR's acquisitions of KPE (reverse IPO) and KFN, Ameripise's sale of Securities America, ING's sale of Cetera to Lightyear, ING's acquisition of CitiStreet, J.P. Morgan's acquisition of Bear Stearns, Mellon Bank's buy-in of ABN AMRO Mellon Global Securities Services, the merger of Mellon and The Bank of New York, NYSE's acquisition of Archipelago (reverse IPO), the buy-in of AXA Financial by AXA Group and the merger of UBS and PaineWebber.

Prior to joining Lazard in 2002, Joseph was with Dresdner Kleinwort Wasserstein and Wasserstein Perella & Co. Joseph also spent several years with Deloitte & Touche LLP, where he specialized in Assurance and Advisory Services.

Joseph graduated magna cum laude from Seton Hall University, W. Paul Stillman School of Business with a B.S. in Accounting.